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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 004326

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ENERGY FOR MOLLY WILLIAMSON AND GUY CARUSO  
NSC FOR HUTTO  
WhiteHouse for OVP KEVIN O'DONOVAN

E.O. 12958: DECL 06/21/2016

TAGS: [ECON](#) [EPET](#) [ENRG](#) [AE](#)

SUBJECT: UAE OFFICIALS DISCUSS OIL AND GAS EXPANSION PLANS WITH EIA  
ADMINISTRATOR CARUSO

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(U) Classified by Ambassador Michele J. Sison for reasons 1.4 (B) and (D).

11. (C) Summary: UAE Minister of Energy Al-Hamili told the 12th Annual ECSSR Energy Conference that the UAE would increase its oil production capacity to 2.7 mb/d in 2006. He told EIA Administrator Guy Caruso that he did not know what OPEC would decide about oil production during its December meeting. ADNOC CEO Yousef Omair bin Yousef told Caruso that he thought that OPEC would not vote for further production cuts in December as long as prices stabilized. Al-Hamili also noted that ADNOC had higher ultimate recovery rates (averaging 40%) than other oil companies in the region, due to its conservative reservoir management practices. Both Al-Hamili and bin Yousef noted that ADNOC valued its foreign partners for the advanced technology that they brought to the table. End Summary.

12. (U) The 12th Annual Energy Conference of the Emirates Center for Strategic Studies and Research (ECSSR), entitled China, India, and the United States: Competition for energy Resources and the simultaneous visit of EIA Administrator Guy Caruso, provided Embassy with an opportunity to receive a broad overview of upcoming UAE energy plans and concerns. During his visit, Caruso met with UAE Minister of Energy Mohamed bin Dha'en Al-Hamili and ADNOC CEO Yousef Omair bin Yousef to discuss energy issues.

#### The UAE's Oil Production Plans

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13. (U) During the conference and in subsequent meetings, UAE officials discussed ADNOC's plans to increase oil production capacity. Al-Hamili gave the keynote address to the audience and made papers with his comments that the UAE would increase oil production to 2.7 million barrels per day (mb/d) by end 2006 and 3.5 mb/d by the "end of next year." He also noted that the UAE had invested "tens of billions" of dollars in increasing oil and gas production capacity. ADNOC's manager for marketing and refining told the audience that ADNOC was currently producing 2.7 mb/d (including condensates) and planned to increase production to 4 mb/d by 2015. He added that ADNOC had invested over \$7 billion in the last two years in efforts to increase production, and was working closely with its international oil company (IOC) partners.

14. (SBU) Bin Yousef told Caruso and Ambassador that ADNOC continued to expand its production capacity. The UAE saw a clear growth in global demand and wanted to try and meet that demand. Bin Yousef said that ADNOC's plan was to increase production to 3.5 mb/d and

then to 4 mb/d, "depending on the time horizon." Whether the UAE could ultimately produce more than 4 mb/d was difficult to predict, he said. It would depend on whether that production would be economically sound.

15. (C) Both Al-Hamili and bin Yousef noted that the UAE's partnership with IOCs gave it access to advanced technology and techniques. Al-Hamili said that the UAE's ultimate rate of recovery of oil reserves averaged around 40% although it varied from field to field. He said that he thought this was high compared to other countries in the Middle East. Al-Hamili noted that ADNOC had partnered with ExxonMobil on further developing the Upper Zakum field to take advantage of Exxon's advanced technology.

16. (SBU) Both Al-Hamili and bin Yousef commented on the high costs of capital investments. Bin Yousef noted that it was difficult for ADNOC to get qualified bidders for exploration and production contracts. He added that he had heard that the cost increases over the past 4-5 years had been on the range of 70%. Al-Hamili argued that producers would be reluctant to invest in increasing capacity if they were unsure whether they would be customers. He praised the various producer-consumer dialogues for increasing transparency. Al-Hamili also said that, although everyone supported improving energy efficiency, he didn't want to see oil discriminated against by other energy resources (such as coal).

#### Natural Gas Production - the UAE needs Gas

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17. (U) The manager for refining and marketing told the ECSSR audience that Abu Dhabi had the fifth largest reserves of gas in the world and was determined to play a bigger role in the global gas market. He said that ADNOC was investing approximately one billion dollars per year from 2003 to 2007 in increasing gas production.

18. (SBU) Al-Hamili told Caruso and Ambassador that the UAE was looking seriously at developing its gas reserves, since supply was not keeping up with demand. He noted that development in the UAE

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rather than taking into account any possible limitations in energy supplies proceeded under the assumption that the gas would be available. He commented that ADNOC would need to seek out the best available technology to develop its gas reserves, because the gas was sour (high in sulfur) and the fields were deep. Bin Yousef noted that the UAE did not plan to expand its 25 year old natural gas plant because it needed to meet increasing domestic demand. He said that ADNOC was in the process of completing a pipeline from its offshore gas facilities to its onshore facilities, and would then be able to use its offshore gas reserves to meet domestic demand (including for reservoir management, domestic energy needs and petrochemicals).

19. (SBU) Both Al-Hamili and bin Yousef discussed the future development of a global market for LNG with Caruso. Both commented that the UAE had been one of the first countries in the region to export LNG (to Japan). The first contracts had been for 20 years and were subsequently renewed for an additional 20 years. Al-Hamili said that gas, unlike oil, was still traded primarily via long term contracts, although he was noticing that newer contract lengths were getting shorter

110. (SBU) Al Hamili explained that the UAE's power generation system was built to meet the summer's anticipated maximum demand. In the winter it only operated at about 30% of capacity. He said that the UAE was in the process of creating a national electricity grid. He added that in the future the GCC would connect a GCC-wide grid. This could eventually be connected to the electricity grids of various countries and the GCC could eventually sell power to Egypt or other countries in the region. He noted that the European energy market worked like this, with companies bidding for inexpensive power.

#### OPEC Decisions on Production

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111. (SBU) Al-Hamili told the ECSSR audience, that the UAE sought to

stabilize oil markets and defend the interests of oil producers when oil prices fall to unacceptable levels. HE also stressed, however, that "The UAE also seeks to preserve the interests of oil consumers by avoiding unacceptably high oil prices, which might have a damaging effect on world demand." He added that the UAE had always abided by OPEC decisions aimed at stabilizing the markets and was one of the "first member states to cut its production" after OPEC decided to lower its production ceiling as of November 1. He later told Caruso that he had told reporters that he did not know what OPEC would decide in its upcoming December meeting in Abuja. Yousef Omair separately said that he did not expect further OPEC cuts in December as long as the market stabilized.

Comment

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¶12. (C) Al-Hamili's remarks on planned UAE oil production are much more ambitious than the UAE is going to be able to meet. ADNOC Deputy CEO Abdulla Nasser Al-Suwaidi (protect) told econchief on November 21, that Al-Hamili must "have included a lot of liquids" in his estimates. He added that ADNOC would not reach 3.5 mb/d by the end of 2007. He noted that people want to build excitement in their speeches, but need to build the excitement on achievable objectives. Given that Al-Hamili is usually well informed about oil issues, we suspect that his remarks were changed in the editing process and no one caught it. A conversation with Energy Ministry Economic Director Hamdan Al-Akbari tends to confirm this view. He noted that in the original Arabic version of the speech that he had seen, the comment was that the UAE would increase production to 3.5 mb/d "in the coming years." The English language transcript and Arabic and English language papers reported it as "by the end of next year." End Comment.

¶13. (U) Administrator Caruso and party did not have time to review this message prior to departure.

Sison